



Financial Management Report as of December 31, 2013

AT A GLANCE:

The City of Kirkland's community based planning process for Kirkland 2035 (page 2 sidebar)

2013 year end revenues increased over 2012 (page 3)

Sales tax revenue growth slowed in the fourth quarter, compared to the third (page 5)

Unemployment continues to decrease, inflation is low and the housing market continues to improve (pages 7-8)

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Summary of All Operating Funds: *Revenue*

- **General Fund** revenue ended 2013 **6.8 percent ahead** of 2012, an increase of \$5.2 million. Higher than expected revenues from sales tax and development services fees are primarily responsible for the increase in the General Fund. Actual revenues were higher than anticipated finishing the year at 105.9 percent of budget, even after mid-biennial budget revisions, which recognized an additional \$1.8 million in revenue. A more detailed analysis of General Fund revenue can be found on page 3, and details on sales tax revenue begin on page 5.
- **Other General Government Funds** revenue finished the year **30 percent higher** than it was at the end of 2012, up over \$5 million. Every fund, with the exception of Facilities Maintenance, had increased revenues in 2013. The growth in revenues over 2012 is mostly due to new property tax revenues from the 2012 Parks and Streets levies. Actual revenue for other operating funds was **100.9 percent** of budget. The final revenue amount was close to the originally budgeted figure because the new revenues were included in the property tax calculation, which is a predictable revenue stream.

There were internal accounting changes for revenues of Water/Sewer, Surface Water, and Solid Waste utilities that contributed to the increases in revenues when comparing 2013 to 2012, however, there was no net increase to the ratepayer due to the change.

- The **Water/Sewer Operating Fund** actual 2013 revenue is **up 17.6 percent** over 2012 year-end due to an accounting change and rate increases; **102.1 percent of budgeted** revenue was collected in 2013 as water service rates were above budget in every category, particularly commercial water sales, likely due to a drier than average summer.
- The **Surface Water Management Fund** revenues finished 2013 at **100.4 percent of budget**. Revenues in 2013 were **8.5 percent higher** than they were in 2012, again due to accounting changes in the fund.
- The **Solid Waste Fund** finished the year with **100.6 percent of budgeted revenues**. This is 26.9 percent higher than in 2012, which is due to rate increases as well as the accounting change for utilities.
- Overall, in 2013 utility funds revenues were **up 18.6 percent** compared to 2012, and finished the year at **101.3 percent of budget**.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2012	12/31/2013	% Change	2012	2013	% Change	2012	2013
General Gov't Operating:								
General Fund	77,009,896	82,252,561	6.8%	76,241,634	77,699,996	1.9%	101.0%	105.9%
Other General Gov't Operating Funds	18,197,533	23,660,063	30.0%	18,954,113	23,452,068	23.7%	96.0%	100.9%
Total General Gov't Operating	95,207,429	105,912,624	11.2%	95,195,747	101,152,064	6.3%	100.0%	104.7%
Utilities:								
Water/Sewer Operating Fund	21,152,804	24,881,871	17.6%	20,540,187	24,374,608	18.7%	103.0%	102.1%
Surface Water Management Fund	8,536,233	9,261,443	8.5%	8,391,990	9,224,823	9.9%	101.7%	100.4%
Solid Waste Fund	12,648,398	16,052,639	26.9%	13,228,950	15,954,564	20.6%	95.6%	100.6%
Total Utilities	42,337,435	50,195,953	18.6%	42,161,127	49,553,995	17.5%	100.4%	101.3%
Total All Operating Funds	137,544,864	156,108,577	13.5%	137,356,874	150,706,059	9.7%	100.1%	103.6%



Efficient Use of Public's Time and Money Through the Kirkland 2035 Campaign

Visualizing Kirkland twenty years from now requires vision, creativity, knowledge and commitment. It also requires resources - time and money. The City is committed to use the public's resources and time efficiently. At the same time, Kirkland's future is important to everyone and the decisions made now will guide the community for generations to come.

The City's "Kirkland 2035: Your Voice, Your Vision, Your Future" initiative is a collaborative effort among all City departments to save time and money while providing a high level of public involvement. The City Council, boards and commissions and staff are in the process of updating the City's Comprehensive Plan, Transportation Plan, Parks and Open Space Plan and Surface Water Plan in addition to more focused plans for parks and roads and the Cross Kirkland Corridor. Rather than planning for public information and outreach independently, a staff team is working together to schedule joint public events, mailings and publications. The joint effort saves staff time and the public's time to stay up to date with the latest news.

In 2013, the City held two Community Planning Days where the public was able to learn about and provide input on all of the planning efforts currently underway. Nearly 350 residents and businesses participated. Those who attended appreciated the comprehensive subject matter, relaxed setting and interesting displays. A third similar event will be held in April 2014 where participants will be able to see how their input was used to shape the draft plans and help define the community's future.

Summary of All Operating Funds: *Expenditures*

- General Fund** expenditures finished 2013 **up 6.5 percent** from the year before. Actual expenditures finished the year at **97.3 percent of budget**. A more detailed analysis of General Fund expenditures by department is found on page 4.
- Other Operating Funds** actual expenditures were **up 3.5 percent** due to higher spending in all funds except Equipment Rental and Street Operating. Most of this increase is due to the 2012 Parks Levy funded maintenance operations which finished the year with \$900,000 of operating expenditures. Most of the new property tax revenue identified on page one was transferred for capital expenditures, and is not included in the expenditure table below. This is true for the remaining \$1.25 million in Parks Levy funding as well as most of the Streets Levy funding.

Expenditures in the Water/Sewer, Surface Water, and Solid Waste utility funds have increased mostly due to an internal accounting change, with the taxes now flowing through the utility fund. This results in an expenditure in the utilities as the funds are moved to the General Fund, offset by tax revenues appearing in the utilities, resulting in zero net effect to ratepayers.

- Water/Sewer Operating Fund** actual expenditures finished the year **23.2 percent higher** than they did in 2012. The majority of this increase is due to the accounting change, which has amounted to more than \$1.15 million of new pass-through expenditures from this fund. This was anticipated in the original budget, which is reflected in year-end expenditures being **99.3 percent of budget**.
- Surface Water Management Fund** expenditures at the end of December 2013 were **16.7 percent higher** than at the end of 2012. These expenditures have increased due to the new accounting requirements for utility taxes that pass through this fund. Year-end expenditures were **lower than budgeted at 82.8 percent** of the yearly budget. The under-expenditures are primarily because of savings in salaries and professional services. However, most of the professional services savings were for projects budgeted in 2013 for which expenses will continue into 2014, such as the Surface Water Master Plan, meaning the budget may still be spent in its entirety during the biennium.
- Solid Waste Fund** expenditures were **17.2 percent higher** in 2013 than in 2012. This increase is due to the timing of payments for the solid waste contract and the utility tax accounting change that was implemented for all utilities. Again, this was expected, although expenditures in the fund finished 2013 at **101.1 percent of budget**, as waste management disposal expenditures were higher than budgeted.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2012	12/31/2013	% Change	2012	2013	% Change	2012	2013
General Gov't Operating:								
General Fund	67,966,001	72,383,205	6.5%	72,747,879	74,412,989	2.3%	93.4%	97.3%
Other General Gov't Operating Funds	16,624,151	17,207,142	3.5%	18,946,241	20,761,666	9.6%	87.7%	82.9%
Total General Gov't Operating	84,590,152	89,590,347	5.9%	91,694,120	95,174,655	3.8%	92.3%	94.1%
Utilities:								
Water/Sewer Operating Fund	16,862,062	20,767,593	23.2%	17,325,319	20,909,022	20.7%	97.3%	99.3%
Surface Water Management Fund	4,641,301	5,418,476	16.7%	5,495,211	6,546,354	19.1%	84.5%	82.8%
Solid Waste Fund	13,254,274	15,537,162	17.2%	13,135,052	15,374,063	17.0%	100.9%	101.1%
Total Utilities	34,757,637	41,723,231	20.0%	35,955,582	42,829,439	19.1%	96.7%	97.4%
Total All Operating Funds	119,347,789	131,313,578	10.0%	127,649,702	138,004,094	8.1%	93.5%	95.2%

General Fund Revenue

- Sales tax** revenue allocated to the General Fund in 2013 was **13.9 percent higher** than it was in 2012. This was more than budgeted, as sales tax is budgeted on a one year lag, with **108.5 percent of budget** collected by the end of the year. A detailed analysis of total sales tax revenue can be found starting on page 5.
- Property tax** finished 2013 at **98.9 percent of budget**, which was slightly ahead of last year with **2.7 percent more** collected than in 2012. This was also above the 98 percent average property tax collections in King County.
- Utility tax** collections finished 2013 **above budget at 102.2 percent**. Revenues were **up 5.6 percent** compared to 2012 in spite of lower electricity and gas utility tax revenues. Revenue growth was due to moderately higher tax revenues in all other utilities, as well as \$200,000 in one time revenue from an audit of telephone utility companies.
- Other taxes** actual revenue was **4.9 percent lower** than in 2012 due to a decrease in leasehold excise tax revenue. However, this decline was anticipated and revenues finished the year at **101.4 percent of budget**.
- The **business licenses (base fee) and franchise fees** were **1.1 percent** higher than in 2012 and finished the year **above budget at 104.1 percent**.
- The **revenue generating regulatory license fee** was **4.5 percent higher** than in 2012. This increase means revenues were above forecast at **106.5 percent of budget**. This tax is charged to employers on a per-employee basis,

and it can fluctuate based on the timing of when businesses submit their payments, as well as the number of employees at each business.

- Development-related fee** revenues were collectively **up 27.7 percent** in 2013. **Plan check fees** finished the year **up 32.8 percent** and **Building, Structural and Equipment permits** were **up 21.4 percent** over 2012. **Planning fees** revenue **increased 32.8 percent**, while **Engineering Services** collected **31.7 percent more** than in 2012. Note that a significant portion of this additional revenue is for work yet to be completed and has been set aside in reserve for this purpose. Overall, development fees were **38.6 percent over budget** in 2013 even after mid-biennial adjustments additions were made to meet additional workload.
- Fines and Forfeitures** were **up 20.0 percent** due to an increase in parking fines and \$48,000 in unbudgeted revenues for warrants served. Parking fines increased because the city filled the formerly vacant parking enforcement officer position in 2013; this revenue source finished the year **above budget expectations at 112.4 percent**.
- Miscellaneous** revenue was **down 9 percent** from 2012 due to lower investment interest and private contributions. However, this category was still **above budget projections at 123.8 percent of budget**.

Other Intergovernmental Services were consolidated into Other Charges for Services as part of a Statewide accounting change.

General Fund revenues ended 2013 \$5.3 million higher than in 2012 largely due to growth in sales tax, and development permits and fees.

The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

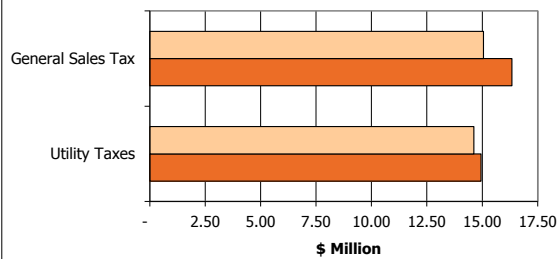
- Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.**

- In 2013 about 424 of the City's 544 regular employees were budgeted within the general**

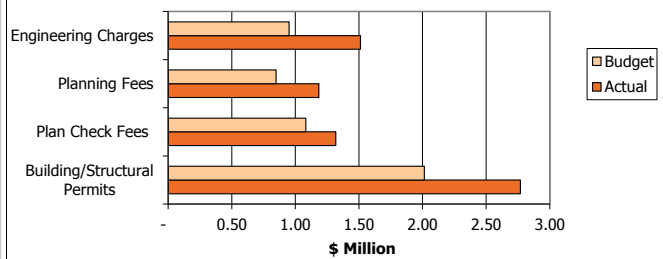
General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	12/31/2012	12/31/2013	% Change	2012	2013	% Change	2012	2013
Taxes:								
Retail Sales Tax: General	14,340,264	16,335,313	13.9%	13,972,010	15,057,904	7.8%	102.6%	108.5%
Retail Sales Tax Credit: Annexation	3,543,431	3,787,395	6.9%	3,409,791	3,415,626	0.2%	103.9%	110.9%
Retail Sales Tax: Criminal Justice	1,671,316	1,808,722	8.2%	1,568,112	1,634,287	4.2%	106.6%	110.7%
Property Tax	15,994,020	16,429,671	2.7%	16,049,865	16,619,200	3.5%	99.7%	98.9%
Utility Taxes	14,160,640	14,947,053	5.6%	14,468,333	14,618,866	1.0%	97.9%	102.2%
Rev Generating Regulatory License	2,373,101	2,479,881	4.5%	2,386,300	2,328,005	-2.4%	99.4%	106.5%
Other Taxes	1,134,577	1,078,944	-4.9%	1,005,488	1,063,975	5.8%	112.8%	101.4%
Total Taxes	53,217,350	56,866,979	6.9%	52,859,899	54,737,863	3.6%	100.7%	103.9%
Licenses & Permits:								
Building, Structural & Equipment Permits	2,280,783	2,769,879	21.4%	2,343,612	2,013,727	-14.1%	97.3%	137.5%
Business Licenses/Franchise Fees	4,316,966	4,366,353	1.1%	4,109,869	4,193,597	2.0%	105.0%	104.1%
Other Licenses & Permits	310,192	506,593	63.3%	297,579	317,128	6.6%	104.2%	159.7%
Total Licenses & Permits	6,907,941	7,642,825	10.6%	6,751,060	6,524,452	-3.4%	102.3%	117.1%
Intergovernmental:								
Grants and Federal Entitlements	328,178	102,803	-68.7%	137,835	198,622	44.1%	238.1%	51.8%
State Shared Revenues & Entitlements	1,328,459	1,012,717	-23.8%	909,967	1,033,781	13.6%	146.0%	98.0%
Property Tax - Fire District	-	-	-	-	-	-	-	-
EMS	855,091	884,645	3.5%	866,729	884,645	2.1%	98.7%	100.0%
Other Intergovernmental Services	111,491	-	N/A	186,597	-	-100.0%	59.7%	N/A
Total Intergovernmental	2,623,220	2,000,165	-23.8%	2,101,128	2,117,048	0.8%	124.8%	94.5%
Charges for Services:								
Internal Charges	5,381,414	5,229,777	-2.8%	5,894,286	5,396,481	-8.4%	91.3%	96.9%
Engineering Services	1,147,917	1,511,947	31.7%	555,852	951,385	71.2%	206.5%	158.9%
Plan Check Fee	992,679	1,318,431	32.8%	814,484	1,082,220	32.9%	121.9%	121.8%
Planning Fees	892,138	1,185,075	32.8%	544,619	848,164	55.7%	163.8%	139.7%
Recreation	1,131,941	1,211,928	7.1%	1,152,963	1,160,300	0.6%	98.2%	104.4%
Other Charges for Services	1,898,287	2,197,827	15.8%	2,187,273	2,210,020	1.0%	86.8%	99.4%
Total Charges for Services	11,444,376	12,654,985	10.6%	11,149,477	11,648,570	4.5%	102.6%	108.6%
Fines & Forfeits	1,806,069	2,167,681	20.0%	2,781,169	1,928,925	-30.6%	64.9%	112.4%
Miscellaneous	1,010,940	919,926	-9.0%	598,901	743,138	24.1%	168.8%	123.8%
Total Revenues	77,009,896	82,252,561	6.8%	76,241,634	77,699,996	1.9%	101.0%	105.9%
Other Financing Sources:								
Transfer of FD 41 & WFR Balances	-	-	N/A	1,426,568	-	N/A	N/A	N/A
Interfund Transfers	329,054	402,008	N/A	153,560	402,008	161.8%	214.3%	100.0%
Total Other Financing Sources	329,054	402,008	N/A	1,580,128	402,008	-74.6%	20.8%	100.0%
Total Resources	77,338,950	82,654,569	6.9%	77,821,762	78,102,004	0.4%	99.4%	105.8%

General Fund Revenue *continued*

2013 Budget to Actual Comparison of Selected Taxes



2013 Budget to Actual Comparison of Development Related Fees



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	12/31/2012	12/31/2013	% Change	2012	2013	% Change	2012	2013
Non-Departmental	1,591,348	1,925,583	21.0%	1,423,697	1,657,558	16.4%	111.8%	116.2%
City Council	358,225	384,828	7.4%	443,849	403,932	-9.0%	80.7%	95.3%
City Manager's Office	1,771,649	1,773,461	0.1%	1,901,282	2,064,111	8.6%	93.2%	85.9%
Municipal Court	2,028,875	2,130,296	5.0%	2,630,719	2,249,404	-14.5%	77.1%	94.7%
Human Resources	1,215,749	1,251,226	2.9%	1,274,208	1,288,257	1.1%	95.4%	97.1%
City Attorney's Office	1,301,336	1,327,445	2.0%	1,365,836	1,371,489	0.4%	95.3%	96.8%
Parks & Community Services	6,914,075	7,012,622	1.4%	7,326,446	7,453,991	1.7%	94.4%	94.1%
Public Works (Engineering)	3,572,007	4,230,353	18.4%	4,016,268	4,756,261	18.4%	88.9%	88.9%
Finance and Administration	4,286,169	4,462,510	4.1%	4,635,007	4,590,803	-1.0%	92.5%	97.2%
Planning & Community Development	3,094,304	3,470,275	12.2%	3,424,656	3,731,209	9.0%	90.4%	93.0%
Police	21,677,614	22,551,653	4.0%	23,946,613	22,742,122	-5.0%	90.5%	99.2%
Fire & Building	20,154,651	21,862,953	8.5%	20,359,298	22,103,852	8.6%	99.0%	98.9%
Total Expenditures	67,966,001	72,383,205	6.5%	72,747,879	74,412,989	2.3%	93.4%	97.3%
Other Financing Uses:								
Interfund Transfers	4,833,451	8,035,884	66.3%	4,942,766	11,513,698	132.9%	97.8%	69.8%
Total Other Financing Uses	4,833,451	8,035,884	66.3%	4,942,766	11,513,698	132.9%	97.8%	69.8%
Total Expenditures & Other Uses	72,799,452	80,419,089	10.5%	77,690,645	85,926,687	10.6%	93.7%	93.6%

Comparing 2013 and 2012 expenditures:

In 2013, excluding interfund transfers, General Fund expenditures were **6.5 percent higher** than 2012, although this increase was budgeted for as year-end expenditures were **97.3 percent** of total budgeted expenses.

Expenditures were higher in 2013 compared to 2012 in every General Fund department, largely due to increases in personnel costs, either through additional overtime or cost of living adjustments. Other specific reasons for increased expenditures are highlighted below. Despite this increase, 2013 expenditures were under budget in each General Fund department, with the exception of Non-departmental. This is mostly because of savings in the professional services category. A number of large projects with expenditures across 2013 and 2014 are budgeted in professional services, so it is likely that under expenditures for 2013 will be spent in 2014 as the projects continue. Some significant projects are highlighted in the descriptions below.

2013 General Fund actual expenditures (excluding "other financing uses") were 6.5 percent higher than they were in 2012.

- Expenditures for **Non-departmental** were **up 21.0 percent** largely due to an increase in retiree medical benefit costs. This increase, along with additional miscellaneous credit card expenses, primarily related to development fees, resulted in Non-departmental ending 2013 **above budget expectations at 116.2 percent**.
- Actual **Interfund Transfers** finished 2013 at 69.8 percent of budget. This is because a number of transfers from the General Fund for the Public Safety Building, which were budgeted in 2013, will occur in 2014. Once these transfers have been made, actual expenditures will match the budget.
- Actual 2013 expenditures for the **City Council increased 7.4 percent** from 2012, due to an increase in dues and memberships. Some of the City's major memberships are based on population, and organizations have been updating their numbers in the years since annexation.
- The **City Manager's Office** finished 2013 at **85.9 percent of budget** mostly due to savings in pro-

Continued on page 5

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professional services. These savings were primarily related to the Kirkland 2035 project and the exploration of a Regional Fire Authority, both projects that will incur expenses in 2014, meaning the under expenditures are likely to be temporary.

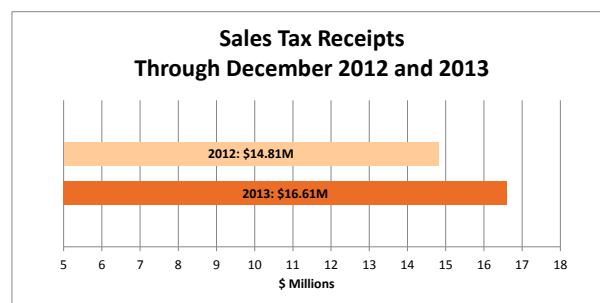
- End of year expenditures for the **Parks & Community Services Department** were at **94.1 percent of budget**, due to Parks Human Services Contracts expenditures being lower than budgeted. These savings are temporary however, as they are related to the timing of contract payments.
- **Planning and Community Development** expenditures finished 2013 **up 12.2 percent** over 2012. This increase was primarily driven by high permit activity that drove a need for overtime and contract expenses. These additional expenses were offset by permit revenue.
- **Public Works** General Fund expenditures were up **18.4 percent** due to permit related expenses. These additional expenditures were offset by revenue as well as staffing vacancies, including the Deputy Director of Public Works position.
- Throughout most of 2013, **Police** expenditures were significantly below the budget due to large savings in Contract Jail costs, as well as three Corrections Officer vacancies. However, during the mid-biennial process these savings were transferred to pay for the Firing Range at the Public Safety Building, so expenditures ended the year at **99.2 percent of budget**.
- Expenditures for the **Fire & Building Department** grew **8.5 percent** over 2012. This increase is related to slightly higher personnel costs and increased workload from development services activities that has resulted in higher contract work and overtime costs (which are offset by revenues). The department's expenses finished 2013 within projections at **98.9 percent of budget**. A summary of Fire District #41 funds is shown in the table to the right. Currently these funds are dedicated to the consolidated fire station capital project.

Summary of Fire District 41 Funds 2013 Revenues & Expenditures	
Beginning Balance	5,224,166
Investment Interest	\$ 12,205
Expenditures:	\$ 12,492.00
Current Balance	\$ 5,223,879

Sales Tax Revenue Analysis

The total in this section contains \$270,000 that is passed to the Street Operating Fund, therefore the total is \$270,000 higher than the sales tax figure in the General Fund Revenue table on page 3. Figures for 2012 also include \$200,000 that was transferred to Capital Projects and is not reflected in the table on page 3.

Year-end sales tax revenue was **12.1 percent** higher in 2013 than 2012. This growth in revenue was concentrated in services, and auto/gas retail, with vehicle sales making up the largest single increase. Sales tax revenue received through December is from sales between November 2012 and October 2013.



Review by business sectors:

- **Contracting is up 7.5 percent** through December compared to 2012. This was the result of several large commercial and multi-family projects along with growth in residential construction, however, large gains early in the year were partially offset by some weak months of growth in the fourth quarter.
- Sales tax from the retail sectors was collectively **up 9.7 percent** compared to 2012.
- The **auto/gas retail** sector was **up 13.5 percent** compared to 2012 due to sales increases at all of the dealerships in town, the addition of one new dealership, and a general national trend of increased car buying driven by pent-up demand.
- The **general merchandise/miscellaneous retail** sector was **up 7.0 percent** in 2013 compared to 2012 largely due to positive performance by key retailers.
- The **retail eating/drinking** sector performance was **up 7.4 percent** compared to 2012. Revenue increases can be attributed to many established restaurants posting improved sales along with the opening of some new businesses during the period analyzed.
- **Other retail** was **up 6.9 percent** compared to 2012 due to positive performance across most categories.
- The **services** sector was **up 28.5 percent** compared to 2012. This increase can be attributed to growth from publishing, internet, broadcasting, arts & entertainment, healthcare and other services in the sector. This gain is skewed upward because of a large sales tax refund that was paid out to a business by the Department of Revenue in May 2012; however, even if that amount is factored out, the services sector is still up 20.7 percent over 2012.
- Excluding a refund in December 2012, which substantially reduced 2012 revenues, **wholesale** was **up 1.1 percent** in 2013. Strong gains in the first quarter were offset by slower growth as the year progressed.
- The **miscellaneous** sector was **up 7.3 percent** in 2013 compared to the previous year due to higher revenues across many categories, particularly from manufacturing and finance.

Fourth quarter Sales Tax data was unavailable from the Department of Revenue at the time of publication. Below are highlights from the third quarter.

Neighboring Cities Sales Tax

Bellevue was up 5.0 percent, Redmond 3.7 percent, through September compared to September 2012.

King County

King County's sales tax receipts were 6.7 percent higher than through the third quarter of 2012.

Business Sector Group	January-December		Dollar Change	Percent Change	Percent of Total		Percent of Change
	2012	2013			2012	2013	
Services	1,635,896	2,101,922	466,026	28.5%	11.0%	12.7%	26.0%
Contracting	2,544,008	2,734,553	190,545	7.5%	17.2%	16.5%	10.6%
Communications	442,779	471,727	28,948	6.5%	3.0%	2.8%	1.6%
Auto/Gas Retail	3,655,104	4,147,689	492,585	13.5%	24.7%	25.0%	27.4%
Gen Merch/Misc Retail	1,876,502	2,007,080	130,578	7.0%	12.7%	12.1%	7.3%
Retail Eating/Drinking	1,273,290	1,368,125	94,835	7.4%	8.6%	8.2%	5.3%
Other Retail	1,988,615	2,125,101	136,486	6.9%	13.4%	12.8%	7.6%
Wholesale	564,302	758,786	194,484	34.5%	3.8%	4.6%	10.8%
Miscellaneous	829,767	890,330	60,563	7.3%	5.6%	5.4%	3.4%
Total	14,810,263	16,605,313	1,795,050	12.1%	100.0%	100.0%	100.0%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2012 and 2013 sales tax receipts in the table to the left.

Month	Sales Tax Receipts		\$ Change	% Change
	2012	2013		
January	1,104,023	1,333,113	229,090	20.8%
February	1,413,587	1,618,028	204,441	14.5%
March	1,054,686	1,225,511	170,825	16.2%
April	1,086,848	1,181,984	95,136	8.8%
May	1,132,774	1,387,795	255,021	22.5%
June	1,147,892	1,264,563	116,671	10.2%
July	1,287,015	1,380,475	93,460	7.3%
August	1,313,808	1,369,409	55,601	4.2%
September	1,329,159	1,483,066	153,907	11.6%
October	1,386,749	1,437,663	50,914	3.7%
November	1,410,201	1,479,089	68,888	4.9%
December	1,143,521	1,444,617	301,096	26.3%
Total	14,810,263	16,605,313	1,795,050	12.1%

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City.

- Monthly sales tax revenues remained stable throughout the fourth quarter of 2013 and were **11.6 percent higher** than in 2012. However, this is skewed by a large refund paid to a business in December 2012, which reduced the City's revenue. Without this refund revenues were 5.7 percent higher in the fourth quarter of 2013.
- In October and November revenues were up 3.7 percent and 4.9 percent respectively on the strength of improved performance from the auto retail sales. December sales were up 26.3 percent, however the refund of \$188,700 in December 2012 skewed the raw data. With this taken into account, December sales were up 8.4 percent between 2012 and 2013.

Sales tax revenue in 2013 pushed revenue passed the 2007 peak of \$16.5 million, although the 2013 figure includes annexation area revenues, so pre-annexation City collections are still less than 2007. Additionally, two sectors, auto/gas and services accounted for over half of the sales tax growth. Because these sectors are economically sensitive, they tend to drop off more when the economy is weak, and grow faster when the economy is strong.

Growth was maintained throughout 2013 and consumer confidence levels remained at consistent levels so revenues were strong, but there are still uncertainties around unemployment, federal government funding and healthcare reform that could slow the recovery and sales tax growth.

Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.

Comparing to the same period last year:

Totem Lake, which accounted for 29.3 percent of the total sales tax receipts in 2013, was **up 10.1 percent** due to the continued sales growth in the automotive/gas retail sector and improve-

ments in most retail categories. Sixty percent of this business district's revenue comes from the auto/gas retail sector.

NE 85th Street, which made up 14.1 percent of the total sales tax receipts in 2013, was **up 6.6 percent** compared to 2012. This area's sales grew due to improving auto retail and general retail sales. These two retail sectors contribute 82.6 percent of this business district's revenue.

Downtown, which accounted for 6.4 percent of 2013 sales tax receipts, was **up 33.8 percent** largely due to the return of information services revenues (which were low in 2012 because of a one-time taxpayer refund that reduced the City's revenues). Factoring out this one-time event, this district would have been about 14.7 percent ahead of 2012. Improvements to information services and retail eating and drinking are the primary reason for the increase. Retail businesses contributed about 70.5 percent of rev-

enues from downtown. Downtown increased its share of the City's overall revenue from 5.3 percent in 2012 to 6.4 percent in 2013.

Carillon Point & Yarrow Bay, which account for 2.1 percent of the total sales tax receipts, were **down 0.5 percent** compared to 2012. About 73.6 percent of this business district's revenue came from retail eating/drinking and accommodations in 2013.

Houghton & Bridle Trails, which produced 2.4 percent of the total sales tax receipts in 2013, were **up 3.7 percent** due to rebounding sales at eating & drinking establishments.

Juanita, which generated 1.6 percent of the total 2013 sales tax receipts, was **up 4 percent** compared to 2012. Sustained positive growth in eating & drinking revenues offset decreases in revenues in most other categories in this district, with eating and drinking establishments posting particularly positive results in the fourth quarter.

North Juanita, Kingsgate, & Finn Hill accounted for 3.1 percent of the total sales tax receipts in 2013 and were **down 0.3 percent** over 2012. Overall growth in the Kingsgate and Finn Hill neighborhoods was offset by a decline in revenues from eating and drinking establishments and food stores in the North Juanita neighborhood.

Year-end tax receipts by business district for 2012 and 2013 are compared in the table on the next page.

When reviewing sales tax receipts by business district, it's important to be aware that 45.7 percent of the revenue received in 2013 were in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

Business District	Jan - Dec Receipts		Dollar Change	Percent Change	Percent of Total	
	2012	2013			2012	2013
Totem Lake	4,413,300	4,857,068	443,768	10.1%	29.8%	29.3%
NE 85th St	2,197,258	2,341,247	143,989	6.6%	14.8%	14.1%
Downtown	789,826	1,056,485	266,660	33.8%	5.3%	6.4%
Carillon Pt/Yarrow Bay	352,206	350,438	(1,768)	-0.5%	2.4%	2.1%
Houghton & Bridle Trails	381,766	395,866	14,100	3.7%	2.6%	2.4%
Juanita	251,510	261,637	10,127	4.0%	1.7%	1.6%
Kingsgate/North Juanita/Finn Hill	509,083	507,652	(1,431)	-0.3%	3.4%	3.1%
Unassigned or No District:						
Contracting	2,541,189	2,731,930	190,741	7.5%	17.2%	16.5%
Other	3,374,127	4,102,990	728,863	21.6%	27.9%	29.2%
Total	14,810,264	16,605,313	1,795,049	12.1%	100.0%	100.0%

Sales Tax Revenue Outlook Sales tax receipts remained stable between the third and fourth quarter of 2013 after growing quickly during the first and second quarters. The high growth in year-over-year sales tax in earlier quarters was expected to slow since revenues had strengthened in the second half of 2012. Big ticket items, such as auto purchases and contracting services, continue to drive Kirkland's upward growth, although contracting growth slowed considerably in October and November, before rebounding in December 2013. Contracting, services and automotive/gas retail sectors contributed 64.0 percent of 2013's overall sales tax gains compared to 2012. All other sectors in the City experienced growth in 2013, as did most districts with the exception of Carillon Point/Yarrow Bay and North Juanita.

OFFICE VACANCIES:

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate in 2013 was 8.1 percent, almost half the Puget Sound average of 15.1 percent, and identical to 2012's vacancy rate of 8.1 percent. Overall the Eastside remains the second strongest office market in the Puget Sound region, with an office vacancy rate that fell from 15.4 percent in the fourth quarter of 2012 to 14.2 percent in the fourth quarter of 2013, only slightly higher vacancy rate than downtown Seattle (13.9 percent).

Occupancy rates have gone down, but much of this trend is linked to new construction and higher rent prices for office space.

The region currently has 2,077,189 SF of office space under construction, including large projects on the Eastside and the continued expansion of Amazon near their current South Lake Union headquarters.

LODGING TAX REVENUE:

Lodging tax revenue grew compared to 2012, finishing the year up 11.5 percent, an increase of \$25,467. This meant revenues finished 2013 at 107.2 percent of budget.

Economic Environment Update The Washington State economy continued to expand adding 9,500 new jobs in the fourth quarter of 2013, according to the February 2014 update from the Washington State Economic and Revenue Forecast Council. This number is 900 more than was expected in the November forecast. The forecast also includes estimates for state personal income through the third quarter of 2013. The current estimate is \$329.4 billion, which is higher than 2012 and is also higher than forecast in November 2013.

Consumer confidence declined for two months before rebounding in December. The Consumer Confidence Index fell to 72 in November, but rebounded to 78.1 in December, a rating of 100 equals the 1985 consumer confidence level. According to the Conference Board, "Consumer confidence rebounded in December and is now close to pre-government shutdown levels (September 2013, 80.2). Looking ahead, consumers expressed a greater degree of confidence in future economic and job prospects, but were moderately more pessimistic about their earning prospects. Despite the many challenges throughout 2013, consumers are in better spirits today than when the year began."

U.S. unemployment for December 2013 was 6.7 percent, which was the same as the seasonally adjusted rate for Washington State. These rates are down from 7.9 percent nationally and 7.4 percent in Washington in December 2012. King County's provisional unemployment rate for December 2013 was 4.7 percent, down from 6.0 percent in December 2012. The unemployment rate in Kirkland was lower than the County, State and Nation with an unemployment rate of 4.1 percent in December 2013, down from 5.2 percent in December 2012. Note that the Bureau of Labor Statistics (BLS) data for the City of Kirkland does not yet include the 2011 annexation areas, and these areas will not be included until early 2015 when the database will be updated based on Census data, according to the BLS. Unemployment data is reported on a one month lag at the national and state levels and on a two month lag at the county and city levels.

The Western Washington Purchasing Manager Index indicated continued growth in economic activity in September 2013. The index was at 56.5 in December, which was the seventh straight month the index was above 50. Index numbers less than 50 indicate a shrinking economy, while those over 50 signal an expanding economy.

(Continued on page 8)

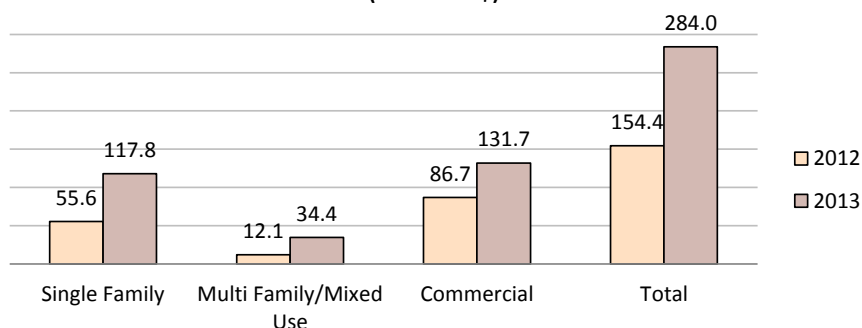
Economic Environment Update *continued*

Local **development activity**, in terms of the valuation of the City's building permits for 2013, has risen significantly compared to 2012. This is illustrated in the chart to the right. Development activity has increased across the board, with the largest increase in dollar terms coming from single family permits and the largest increase by percentage coming from multi-family/mixed use permits. Permit activity in the fourth quarter was lower overall than in the second and third quarter due to a decline in single family and commercial permits. Commercial permits were one third of their second quarter total during the fourth quarter.

The national **housing market** appeared to slow in the fourth quarter of 2013. Housing units authorized by permits were 3.0 percent below their November level in December, according to the Washington State Economic and Revenue Council. Existing home sales were higher in December than in November, but this followed three consecutive months without growth. Locally the picture was better and Seattle area home prices had risen for twenty-one consecutive months, although prices were still 16.2 percent below their 2007 peak.

Inflation in the Seattle area remained low. In December 2013, the Seattle all items CPI was 1.3% higher than in the previous December compared to the 1.5% increase for the U.S. city average. Core inflation in Seattle was 1.3% compared to 1.7% for the nation.

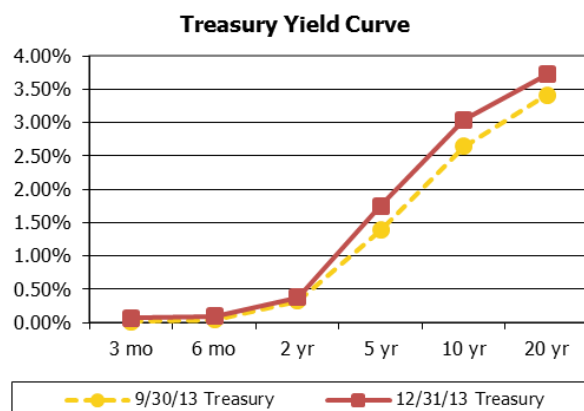
**Valuation of Building Permits
Annual Total 2012 and 2013
(in millions \$)**



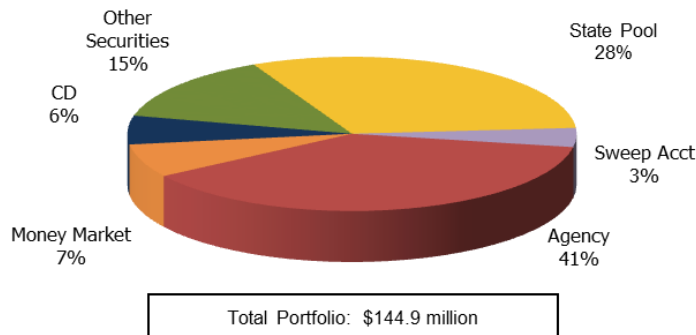
Investment Report

MARKET OVERVIEW

Longer term Treasury yields increased slightly with the yield curve becoming steeper at the long end of the curve. The Fed Funds rate continued at 0.25 percent during the fourth quarter of 2013. Any changes to the Fed Funds rate are not anticipated to occur until 2016.



Investments by Category



CITY PORTFOLIO

The primary objectives for the City of Kirkland's investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City.

The City's portfolio balance remained fairly level in the 4th quarter of 2013, increasing only \$0.8 million to \$144.9 million compared to \$144.1 million on September 30, 2013. Portfolio balances increased with the collection of the 2nd half of the year property taxes in October and November then decreased primarily due to the construction costs of the Public Safety Building.

Diversification

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, US Agency bonds, State and Local Government bonds, the State Investment Pool, an overnight bank sweep account, a bank money market account and bank certificates of deposit. City investment procedures allow for 100% of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

2013 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The outlook for growth in the U.S. economy changed very little from three months ago, according to 42 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy grew at an annual rate of 1.7 percent in 2013 and is expected to grow 2.6 percent in 2014. CPI inflation is expected to average 1.4 percent in 2013 and 2.0 percent in 2014. The unemployment rate is expected to average 7.5 percent in 2013 and fall to 7.0 percent in 2014. The Fed Funds rate, currently at 0.25 percent, is expected to remain at this level throughout 2014 and 2015.

The portfolio duration has decreased only slightly as securities get closer to maturity and cash balances in the portfolio have decreased. The focus on the next 2 quarters will be purchasing shorter term securities to continue reducing the duration in preparation for rising interest rates. The opportunities for increasing portfolio returns are scarce as short term interest rates continue at historically low levels. During periods of low interest rates the portfolio duration should be kept shorter with greater liquidity so that the City is in a position to be able to purchase securities with higher returns when interest rates begin to rise. The State Pool is currently at 0.09 percent and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total investment income for 2013 was \$826,937. Estimated investment income for 2014 is \$695,000.

Investment Report *continued*

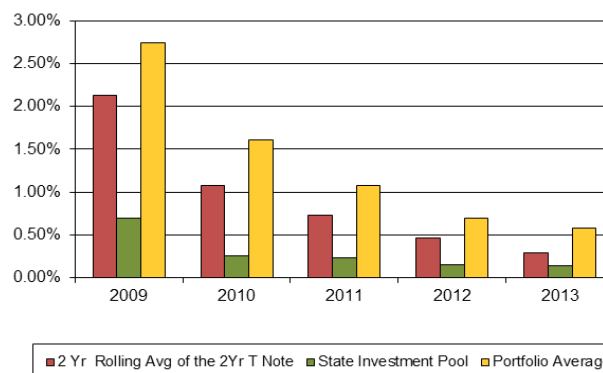
Liquidity

The target duration for the City's portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City's investment portfolio decreased from 1.92 years on September 30, 2013 to 1.85 years on December 31, 2013 as the securities in the portfolio move closer to maturity.

Yield

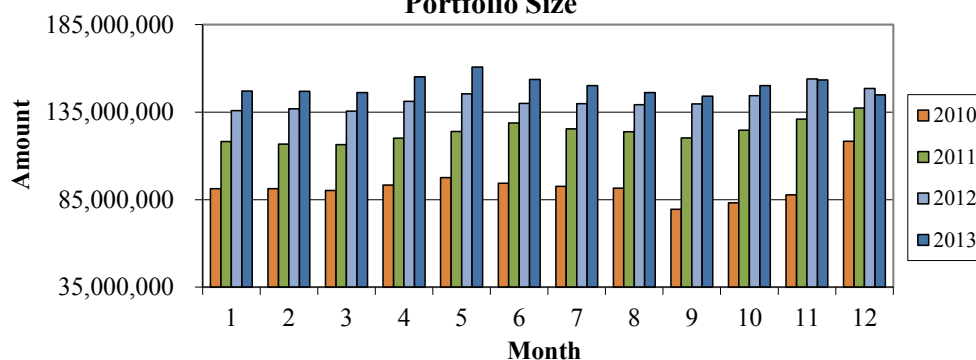
The City Portfolio yield to maturity marginally increased from 0.56 percent on September 30, 2013 to 0.59 percent on December 31, 2013. Through December 31, 2013, the City's annual average yield to maturity remained at 0.58 percent. The City's portfolio benchmark is the range between the 90-day Treasury Bill and the 2-year rolling average of the 2-year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90-day T Bill and the 2-year rolling average of the 2-year Treasury Note, which was 0.29 percent on December 31, 2013.

Investment Interest Rate Comparisons

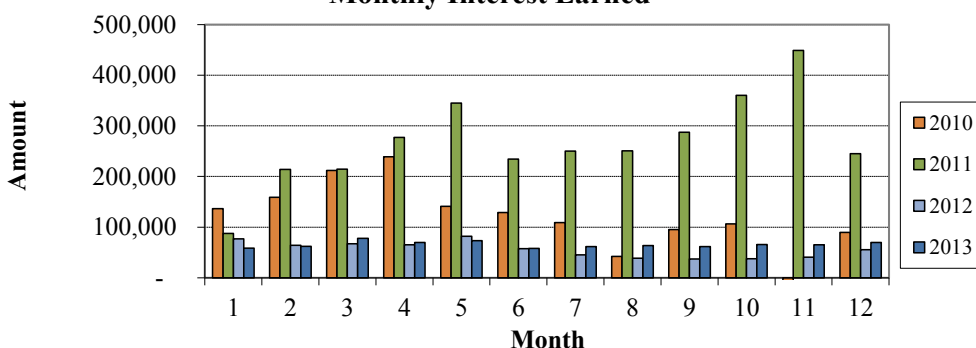


The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the adjacent graph.

Portfolio Size



Monthly Interest Earned



Reserves are an important indicator of the City's fiscal health and effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. The reserves are listed with their revised estimated balances as of December 31, 2013.

Reserve Analysis

General Purpose Reserves

- The **Revenue Stabilization Reserve** was used almost in its entirety during the 2009-10 biennium as part of the budget balancing strategy to address the severe economic downturn, which allowed the City to mitigate some negative impacts to services. Contributions have been made to replenish the reserves since then and with planned contributions in 2014, the reserve is expected to be at target by the end of 2014.
- The **Building and Property Reserve** has been identified as an available funding source for facility expansion and renovation projects and a significant portion is planned to be used during the current biennium, which will bring the reserve just slightly below target.
- The **General Capital Contingency Reserve** was used to fund project cost increases in the previous biennium, so replenishment from General Fund 2012 year-end cash was planned in 2013.

General Capital Reserves

- Real estate activity remains strong in 2013. **Real Estate Excise Tax (REET)** collections finished the year **27 percent ahead of 2012**. Revenue through the end of the year was **186 percent of budget**, so the current budgeted ending balance does not reflect actual revenue trends and will be reviewed later in the year for potential adjustment. Over \$750,000 of REET 1 reserves was authorized during the fourth quarter to fund the gap in the NE 85th Street Project, which is due to restart construction in 2014.
- **Impact fees** are also significantly ahead of the 2013 budget, finishing the year with \$1.4 million in additional revenue. Transportation impact fees are 12 percent ahead of the same period last year and park impact fees are 3.5 percent ahead. There is minimal planned use of transportation impact fees for capital projects and no planned use of park impact fees for park capital projects in the current budget cycle except for debt related to parks. As with REET, the budgeted ending balance for Impact Fees will be reviewed at the end of 2014.

Reserves	Est. 2013 Beginning Balance	Adopted 2014 Ending Balance	Revised 2014 Ending Balance	2013-14 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	40,882	50,000	(9,118)
General Oper. Reserve (Rainy Day)	2,806,513	2,806,513	2,806,513	4,219,482	(1,412,969)
Revenue Stabilization Reserve	1,231,431	2,468,068	2,468,068	2,468,068	0
Building & Property Reserve	2,137,598	571,579	571,579	600,000	(28,421)
Council Special Projects Reserve	250,000	178,372	156,372	250,000	(93,628)
Contingency	2,201,870	2,426,425	2,426,425	4,275,442	(1,849,017)
General Capital Contingency*	2,686,587	4,810,795	4,810,795	5,735,330	(924,535)
General Purpose Reserves with Targets	11,363,999	13,311,752	13,280,634	17,598,322	(4,317,688)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	350,000	350,000	350,000	50,000	300,000
Firefighter's Pension Reserve*	1,746,298	1,484,958	1,484,958	1,568,207	(83,249)
Health Benefits Fund:					
Claims Reserve*	1,187,813	2,615,856	2,615,856	1,424,472	1,191,384
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	500,000	500,000
Excise Tax Capital Improvement:					
REET 1**	3,477,948	4,507,512	3,433,824	1,071,000	2,362,824
REET 2**	2,284,826	2,319,112	2,024,800	2,225,500	(200,700)
Water/Sewer Operating Reserve:	2,414,471	2,414,471	2,414,471	1,979,380	435,091
Water/Sewer Debt Service Reserve:	488,200	498,591	498,591	508,717	(10,126)
Water/Sewer Capital Contingency:	1,107,600	1,107,600	1,107,600	250,000	857,600
Surface Water Operating Reserve:	706,364	706,364	706,364	412,875	293,489
Surface Water Capital Contingency:	816,480	816,480	816,480	758,400	58,080
Other Reserves with Targets	15,580,000	17,820,944	16,452,944	10,748,551	5,704,393
Reserves without Targets	35,751,424	35,847,270	34,801,940	n/a	n/a
Total Reserves	62,695,423	66,979,966	64,535,518	n/a	n/a

The target comparison reflects revised ending balances to the targets established in the budget process for those reserves with targets.

General Purpose reserves are funded from general revenue and may be used for any general government function.

All Other Reserves with Targets have restrictions for use either from the funding source or by Council-directed policy (such as the Litigation Reserve).

*Includes replenishments adopted in early April 2013 and adjustments to actual cash balances adopted in June.

**Includes replenishments adopted in early April 2013 and adjustments to actual cash balances adopted in June; does not reflect increased collections in 2013.

The summary to the right details all Council authorized uses and additions in 2013.

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
2013-14 Council Authorized Uses		
2013 First Quarter Uses	\$302,000	
2013 Second Quarter Uses	\$626,319	
2013 Third Quarter Uses	\$489,981	
Real Estate Excise Tax 1 - Transp.	\$776,657	NE 85th Street Corridor Project Budgets Gap
Real Estate Excise Tax 2 - Transp.	\$5,300	PK Park (Transit Center) Restroom
Surface Water Construction	\$148,000	NE 141st/111th Ave Culvert Repair
Surface Water Transportation	\$123,766	NE 120th Street Extension (East)
Surface Water Transportation	\$25,610	NE 112th Street Sidewalk Request 2 (SD)
Council Special Projects Reserve	\$15,000	Kirkland Performance Center Reimbursement
General Fund Contingency	\$9,118	Employee BBQ, All City Dinner & Kirkland Time Bank
2013-14 Council Authorized Additions		
Real Estate Excise Tax 2 - Transp.	\$77,303	Return from NE 120th Street Extension (East)

Financial Management Report as of December 31, 2013

General Fund and Contingency reserves are funded from general purpose revenue and are governed by Council-adopted policies.

Special Purpose reserves reflect both restricted and dedicated revenue for specific purpose, as well as general revenue set aside for specific purposes.

General Capital Reserves provide the City the ability to respond to unexpected changes in costs and accumulate funds for future projects. It is funded from both general revenue and restricted revenue.

Utility reserves are funded from utility rates and provide the utilities with the ability to respond to unexpected costs and accumulate funds for future replacement projects.

Internal service funds are funded by charges to operating departments. They provide for the accumulation of funds for replacement of equipment, as well as the ability to respond to unexpected costs.

Reserves	Description	Est. 2013 Beginning Balance	Adopted 2014 Ending Balance	Additional Authorized Uses/Additions	Revised 2014 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	(9,118)	40,882
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	2,806,513	0	2,806,513
Revenue Stabilization Reserve	Temporary revenue shortfalls	1,231,431	2,468,068	0	2,468,068
Building & Property Reserve	Property-related transactions	2,137,598	571,579	0	571,579
Council Special Projects Reserve	One-time special projects	250,000	178,372	(22,000)	156,372
Contingency	Unforeseen expenditures	2,201,870	2,426,425	0	2,426,425
Total General Fund/Contingency		8,677,412	8,500,957	(31,118)	8,469,839
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	350,000	350,000	0	350,000
Labor Relations Reserve*	Labor negotiation costs contingency	65,348	65,348	0	65,348
Police Equipment Reserve*	Equipment funded from seized property	48,685	58,685	0	58,685
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	800,000	-	0	0
Development Services Reserve*	Revenue and staffing stabilization	1,004,194	1,187,020	0	1,187,020
Development Svcs. Technology Reserve	Permit system replacement	264,810	159,792	0	159,792
Tour Dock*	Dock repairs	138,892	171,392	0	171,392
Tree Ordinance*	Replacement trees program	29,717	29,717	0	29,717
Revolving/Donation Accounts*	Fees/Donations for specific purposes	451,090	537,890	0	537,890
Lodging Tax Fund*	Tourism program and facilities	240,991	221,951	0	221,951
Cemetery Improvement*	Cemetery improvements/debt service	662,614	712,174	0	712,174
Off-Street Parking	Downtown parking improvements	147,016	212,836	0	212,836
Firefighter's Pension*	Long-term care/pension benefits	1,746,298	1,484,958	0	1,484,958
Total Special Purpose Reserves		6,567,734	5,809,842	0	5,809,842
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1**	Parks/transportation/facilities projects, parks debt service	3,477,948	4,507,512	(1,073,688)	3,433,824
REET 2**	Transportation and other capital projects	2,284,826	2,319,112	(294,312)	2,024,800
Impact Fees					
Roads**	Transportation capacity projects	2,060,540	2,066,737	0	2,066,737
Parks**	Parks capacity projects	685,727	598,023	0	598,023
Street Improvement	Street improvements	995,958	995,958	0	995,958
General Capital Contingency*	Changes to General capital projects	2,686,587	4,810,795	0	4,810,795
Total General Capital Reserves		12,191,586	15,298,137	(1,368,000)	13,930,137
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	2,414,471	2,414,471	0	2,414,471
Water/Sewer Debt Service Reserve*	Debt service reserve	488,200	498,591	0	498,591
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	1,107,600	0	1,107,600
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	9,093,871	8,228,606	0	8,228,606
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	706,364	706,364	0	706,364
Surface Water Capital Contingency	Changes to Surface Water capital projects	816,480	816,480	0	816,480
Surface Water-Transp. Related Rsv	Replacement/re-prioritized/new projects	3,794,629	4,580,229	(104,619)	4,475,610
Surface Water Construction Reserve	Trans. related surface water projects	1,990,126	1,485,091	(465,000)	1,020,091
Total Utility Reserves		20,411,741	19,837,432	(569,619)	19,267,813
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims Reserve*	Health benefits self insurance claims	1,187,813	2,615,856	0	2,615,856
Rate Stabilization Reserve	Rate stabilization	1,000,000	1,000,000	0	1,000,000
Equipment Rental:					
Vehicle Reserve*	Vehicle replacements	9,154,784	9,260,709	0	9,260,709
Radio Reserve	Radio replacements	7,686	7,686	0	7,686
Information Technology:					
PC Replacement Reserve*	PC equipment replacements	308,256	482,150	0	482,150
Technology Initiative Reserve	Technology projects	690,207	523,835	0	523,835
Major Systems Replacement Reserve	Major technology systems replacement	245,500	656,200	0	656,200
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund*	20-year facility life cycle costs	1,702,704	2,437,162	(475,711)	1,961,451
Total Internal Service Fund Reserves		14,846,950	17,533,598	(475,711)	17,057,887
Grand Total		62,695,423	66,979,966	(2,444,448)	64,535,518

*Includes replenishments adopted in early April 2013 and adjustments to actual cash balances adopted in June.

**Includes replenishments adopted in early April 2013 and adjustments to actual cash balances adopted in June; does not reflect increased collections in 2013, which will be considered for budget adjustments.



The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual and year over year comparisons** for year-to-date revenues and expenditures for all operating funds.
- The **Sales Tax Revenue Analysis** report takes a closer look at one of the City's larger and most economically sensitive revenue sources.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.
- Tracey Dunlap, Director of Finance & Administration
- Michael Olson, Deputy Director of Finance & Administration
- Sri Krishnan, Financial Planning Manager
- Neil Kruse, Senior Financial Analyst
- Kyle Butler, Budget Analyst
- George Dugdale, Budget Analyst



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Economic Environment Update References:

- The Conference Board Consumer Confidence Index Press Release December 20, 2013
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, December, 2013
- Quarterly Economic & Revenue Forecast, November 2013—Washington State Economic & Revenue Forecast Council
- Monthly Economic and Revenue Publication, February 2014—Washington State Economic & Revenue Forecast Council
- CB Richard Ellis Real Estate Services, Market View Puget Sound, Fourth Quarter 2013
- CB Richard Ellis Real Estate Services, Market View Puget Sound, Fourth Quarter 2012
- Northwest Multiple Listing Service
- U.S. Bureau of Labor Statistics
- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department